

BRINCO

British Newfoundland Corporation Limited ■ Annual Report 1968

AR29

Copper Concentrator, Whales Back



British Newfoundland Corporation Limited

Officers

Chairman:
HENRY BORDEN, C.M.G., Q.C.

Deputy Chairman:
EDMUND L. de ROTHSCHILD, T.D.

President & Chief Executive Officer:
DONALD GORDON, C.C., C.M.G.

Vice-President & General Manager:
M. F. NICHOLSON

Vice-President (Technical):
DONALD J. McPARLAND, P. Eng.

Vice-President (Finance):
E. G. LAMBERT, C.A., A.T.I.I.

Vice-President (Legal) & Secretary:
C. T. MANNING, Q.C.

Treasurer:
M. C. BURNES, C.A.

Directors

*HENRY BORDEN, C.M.G., Q.C., Toronto, Ontario
Former President and Chairman,
Brazilian Light & Power Company, Limited

*SENATOR MAURICE BOURGET, P.C.,
Levis, Quebec

*SIR VAL DUNCAN, O.B.E., London, England
Chairman and Chief Executive,
The Rio Tinto-Zinc Corporation Limited

G. PETER FLECK, New York, U.S.A.
Chairman, Amsterdam Overseas Corporation;
New Court Securities Corporation

B. C. GARDNER, M.C., Montreal, Quebec
President, Canafund Company, Limited

J. GEORGES-PICOT, K.B.E., Paris, France
Chairman of the Board and Managing
Director
Compagnie Financière de Suez et
de l'Union Parisienne

*DONALD GORDON, C.C., C.M.G.,
Westmount, Quebec
Chairman, Churchill Falls (Labrador)
Corporation Limited and President and
Chief Executive Officer, British
Newfoundland Corporation Limited

*SAM HARRIS, New York, U.S.A.
Senior Partner of Strasser, Spiegelberg,
Fried & Frank

J. H. MOWBRAY JONES, D.Eng.,
Montreal, Quebec
Director, Bowater Paper Corporation
Limited, London

P. L. de LASZLO, O.B.E., London, England
Director, The English Electric
Company Limited

*DONALD J. McPARLAND, P.Eng.,
Westmount, Quebec
President and Chief Executive officer,
Churchill Falls (Labrador) Corporation
Limited; Vice-President, British
Newfoundland Corporation Limited;
President, Twin Falls
Power Corporation Limited

T. R. MOORE, Quebec City, Quebec
President and Chairman of the Board,
The Price Company, Limited

*M. F. NICHOLSON, Montreal, Quebec
Vice-President & General Manager,
British Newfoundland Corporation Limited;
President, British Newfoundland Exploration
Limited; Chairman, Twin Falls Power
Corporation Limited

GORDON F. PUSHIE, St. John's,
Newfoundland, Industrial Consultant

*EDMUND L. de ROTHSCHILD, T.D.,
London, England
Senior Partner of N. M. Rothschild & Sons

PHILIP SHELBOURNE, London, England
Partner of N. M. Rothschild & Sons

H. GREVILLE SMITH, C.B.E., Montreal,
Quebec
President, Canadian International
Investment Trust Limited

*ARTHUR S. TORREY, Montreal, Quebec
Honorary Chairman, Pitfield, Mackay, Ross
& Company Limited

**Member of the Executive Committee.*

REGISTERED OFFICE

1 Viking Road
St. John's, Newfoundland

EXECUTIVE OFFICE

One Westmount Square
Montreal 216, Quebec

SUBSIDIARY COMPANIES

British Newfoundland Exploration Limited
Churchill Falls (Labrador) Corporation Limited
Little Deer Corporation Limited

ASSOCIATED COMPANY

Twin Falls Power Corporation Limited

AUDITORS

Peat, Marwick, Mitchell & Co
Montreal, Quebec

BANKERS

Bank of Montreal
N. M. Rothschild & Sons

TRANSFER AGENT AND REGISTRAR

The Royal Trust Company
St. John's, Newfoundland
Montreal, Quebec
Toronto, Ontario

COMMON SHARES LISTED

Montreal Stock Exchange
Toronto Stock Exchange

*Les personnes intéressées peuvent
se procurer la version française
de ce rapport annuel en s'adressant au
service des Relations publiques,
British Newfoundland Corporation
Limited, Un Westmount Square,
Montréal 216, Québec.*

Foreword from the President

JUN 6 1969



Donald Gordon, President,
and Henry Borden, Chairman,
at the Extraordinary
General Meeting
of the Company,
October 30, 1968.

Several important milestones in the history of your Company were reached during 1968 and I believe the year can be regarded as one of great achievement and promise.

The financing of the Churchill Falls project by Churchill Falls (Labrador) Corporation Limited (CFLCo) was arranged. In view of the scale and complexity of the financial problems, this was a signal achievement and all those associated with it in Canada, the United States, and Britain are to be congratulated. It remains in 1969 to formalize these arrangements with the execution of a number of important documents and agreements on which work is progressing at this time. The signing of the long-term power contract between CFLCo and Hydro-Quebec

to the interests of the shareholders as a whole. These proposals, which have been implemented and the details of which have been previously described to you, have provided more than \$31.5 million of the \$42 million required. The balance of approximately \$10.5 million was provided by shareholders through the recent Rights Issue.

The total funds required by Brinco were raised by the issue of 10,586,521 Common Shares, all of which were purchased at the price of \$4 per share. In the course of the financing, your Company has gained the sponsorship and support of an association of two of the leading mining and industrial companies of the western world, who now jointly hold a share interest of approximately 50 per cent. RTZ was one of your Company's founding shareholders. Its continuing contribution to the affairs of the Company is reflected in the financial developments to which I have referred. The association with Bethlehem Steel Corporation is new and most welcome. With these partners at our side we look forward to the future with added confidence.

(Continued on page 5)

DONALD GORDON, C.C., C.M.G.

(1901-1969) JUN 6 1969

It is with deep regret that I record the death on Saturday, May 3, of Mr. Donald Gordon, the President and Chief Executive Officer of Brinco since March 1, 1967.

Under his leadership giant steps were taken towards the development of the natural resources of Newfoundland and Labrador on which the Company holds lease rights.

It is fitting that in the latter stage of a career dedicated to the service of the Canadian people Mr. Gordon should have been so closely identified with the Churchill Falls Project — one of the largest and most imaginative developments ever carried out in this country.

He will be sorely missed but long remembered.

Henry Borden,
Chairman

May 15, 1969

British Newfoundland Corporation Limited

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Deputy Chairman:
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October 30, 1968.

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The financing of the Churchill Falls project by Churchill Falls (Labrador) Corporation Limited (CFLCo) was arranged. In view of the scale and complexity of the financial problems, this was a signal achievement and all those associated with it in Canada, the United States, and Britain are to be congratulated. It remains in 1969 to formalize these arrangements with the execution of a number of important documents and agreements on which work is progressing at this time. The signing of the long-term power contract between CFLCo and Hydro-Quebec is scheduled to take place with the execution of these documents.

During the year your Company invested \$38 million in the equity of CFLCo, bringing its total dollar investment in that corporation to just under \$50 million. As the principal shareholder in CFLCo, Brinco subscribed for the largest proportion of the equity in CFLCo, the raising of which by CFLCo was necessary before funds could be obtained through debt financing. The purchase by Brinco of Rio Algom's shareholding in CFLCo reported to you at the Extraordinary General Meeting of the Company held on October 30 last, has assured your Company of majority share control of its principal subsidiary.

The investment of \$38 million in CFLCo plus working capital requirements in Brinco itself involved the raising of approximately \$42 million by Brinco. The financing proposals made to the Company in August by The Rio Tinto-Zinc Corporation Limited (RTZ), in association with Bethlehem Steel Corporation, were most favorable

to the interests of the shareholders as a whole. These proposals, which have been implemented and the details of which have been previously described to you, have provided more than \$31.5 million of the \$42 million required. The balance of approximately \$10.5 million was provided by shareholders through the recent Rights Issue.

The total funds required by Brinco were raised by the issue of 10,586,521 Common Shares, all of which were purchased at the price of \$4 per share. In the course of the financing, your Company has gained the sponsorship and support of an association of two of the leading mining and industrial companies of the western world, who now jointly hold a share interest of approximately 50 per cent. RTZ was one of your Company's founding shareholders. Its continuing contribution to the affairs of the Company is reflected in the financial developments to which I have referred. The association with Bethlehem Steel Corporation is new and most welcome. With these partners at our side we look forward to the future with added confidence.

(Continued on page 5)



Foreword from the President

(Continued from page 3)

As I have stated previously, the Brinco picture is an expanding one. In terms of hydro-electric power, Brinco holds the exclusive rights to all undeveloped hydro power sites in Labrador. The water power potential of the Lower Churchill river — approximately three million horsepower — is the next hydro-electric project of this kind to which the Company will give its attention.

In the field of minerals the Company has, since the early 1950's, maintained a constant program of exploration on its concessions on the Island of Newfoundland and in Labrador. Mining exploration is a slow task and rewards do not always come easily or quickly from this investment in time and money. However, we are intensifying our work in the favorable areas already indicated while completing our exploration of the concessions as a whole.

In the circumstances, I am very concerned over generally expressed fears that the tax reforms to be introduced by the Federal Government in 1969 may include revisions of the tax incentives to the resource industries and

more specifically to the initial tax exemption period for new mines and depletion allowances to existing mines. The adage "Mines are made, not found" is particularly apt in Canada where new discoveries involve high cost development in remote and often inhospitable areas and where only the very few are bonanzas. It is obvious that this has a very real bearing on developments in Labrador.

It is known for certain that tax incentives have spurred the expansion of the resource industries in this country over the past 25 years and that the record of this section of our economy over this period has been without parallel. The insidious aspect of the removal of such incentives is that it will be impossible to determine what resource developments might have been undertaken had the incentives been continued.

There are other parts of the world that are receptive and eager for risk capital, where natural resource potential is competitive with Canada. Our political stability and realistic tax concepts have to date attracted the capital to develop our Northland. It would be a great pity if the benefits of this policy were to be lost because of an urge to create an immediate additional source of tax revenue. The Finance Minister has recently announced, however, that the Federal Government now plans as a first step to publish a White Paper on tax reform. This will give the provinces and industry

a welcome opportunity to consider what changes are proposed and to make representations about them before they are embedded in the statute books.

All things considered, the affairs of your Company have prospered during the year 1968 and plans for the future present an exciting challenge for the continuing expansion of its hydro-electric and mineral developments.



DONALD GORDON
PRESIDENT AND CHIEF EXECUTIVE OFFICER
MONTREAL, APRIL 11, 1969

Copper ore at the Whales Back mine near Springdale, Nfld., is handled economically with rubber-tired vehicles.

Report of the Directors to Shareholders

In the first half of the year your Company paid up the balance on call — amounting to \$21,012,960 — on 1,705,175 partly paid shares of Churchill Falls (Labrador) Corporation Limited (CFLCo), which were 10 per cent paid up at the end of 1967. In the third quarter the Company subscribed for an additional 327,012 shares of CFLCo at \$15 per share at a cost of \$4,905,180. In order to finance these transactions your Company borrowed \$26 million from the Bank of Montreal. As described later, these bank borrowings were retired by the year end.

Consideration was given to various alternatives for the longer term financing of your Company. In August your Directors approved an offer received from the Rio Tinto-Zinc Corporation Limited (RTZ)

- (a) to subscribe forthwith for 4,700,000 common shares of the Company at \$4 per share, and
- (b) to commit to purchase later in the year any unsubscribed shares of an issue to all shareholders of approximately 6,000,000 common shares at the same price of \$4 per share.

The 4,700,000 shares were in due course allotted to a Canadian subsidiary of RTZ, in which the Bethlehem Steel Corporation has a minority shareholding. This realized the sum of \$18.8 million, \$6 million of which was used partly to retire bank loans and the balance was used to purchase, at a price of \$15 per share, 805,434 shares of CFLCo owned by Rio Algom Mines Limited. As a result of your Company's purchases of shares during the year, your Company now holds 4,989,330 shares in CFLCo at an over-all cost of \$49,646,797.

In November your Company made the Rights Offer referred to above to all shareholders of record on November 8, 1968, who were given rights to subscribe for seven additional common shares of the Company for each 20 common shares held. This offering, which closed on December 13, involved the issue of 5,886,521 shares of the Company and realized \$23,546,084. The offering was 98.4 per cent subscribed and the small balance of unsubscribed shares was taken up pursuant to the RTZ commitment. Out of the proceeds of this share issue your Company retired the remaining \$20 million of its bank loan and entered the year 1969 with the majority ownership of CFLCo assured, and with working capital in its own treasury of approximately \$3.5 million.

At an Extraordinary General Meeting of Shareholders on October 30, 1968, the Authorized Share Capital of the Company was increased from 19,999,998 Common Shares to 25,000,000 Common Shares, of which 22,705,152 were issued and outstanding at December 31, 1968.

Hydro-Electric Power

Churchill Project

The 1968 Annual Report of Churchill Falls (Labrador) Corporation Limited, which accompanies this report, contains financial and operating information concerning the Churchill Falls Project. That report also contains information on CFLCo's subsidiary, Twin Falls Power Corporation Limited.

Lower Churchill River Project

Preparations were in hand at the end of the year to carry out detailed studies of power development on the Lower Churchill River during 1969. Studies carried out previously have indicated that the power potential of the Lower Churchill, amounting to approximately three million horsepower, could best be developed at two sites. The first of these is at Gull Island, 140 miles downstream from the tailraces of the Churchill Falls generating station, where approximately two million horsepower could be developed. The other is at Muskrat Falls (40 miles downstream from Gull Island), where an additional one million horsepower could be developed. These two sites do not require simultaneous development, and the potential of the larger of the two, the Gull Island site, is in the order of 10 billion Kwh per annum.

The work planned for 1969 will be directed towards the Gull Island site. It will comprise field investigation and office studies to provide information of similar scope and depth as that which was produced on the Upper Churchill before the sale of power and financial negotiations could be proceeded with. Expenditures to be made in 1969 are estimated at slightly in excess of \$2 million, of which approximately 60 per cent will be required for the field program. The studies will be conducted by Acres Canadian Bechtel of Churchill Falls who carried out the previous work on this project in 1965.

(Continued on page 15)

British Newfoundland Corporation Limited and Subsidiary Companies

Consolidated Balance Sheet as at December 31, 1968

Assets

Current assets:

Cash and short-term deposits	\$ 9,909,747	2,121,449
Accounts receivable (including \$221,089 from affiliate)	4,570,087	1,017,228
Supplies and prepaid expenses	730,451	385,476
Total current assets	15,210,285	3,524,153

Special refundable tax	136,321	140,531
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Investment in shares of Twin Falls Power Corporation Limited, at cost (note 1)	2,500,000	2,500,000
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Churchill Falls power project (note 4):

Property and plant, at cost less accumulated depreciation	109,511,991	38,590,665
Financing expenses	1,605,783	217,289
	111,117,774	38,807,954

Land, buildings and equipment, at cost less accumulated depreciation (note 4)	2,531,662	3,072,089
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Preproduction expenditures less amounts written off (note 4)	1,312,507	1,856,908
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Exploration expenditures less amounts written off (note 4)	5,100,180	4,849,875
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Expenditures on mineral, timber and water power rights less amounts written off (note 4)	437,983	437,983
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	120,500,106	49,024,809
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Organization and financing expenses	2,424,543	1,001,551
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	\$140,771,255	56,191,044
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Liabilities

Current liabilities:

Accounts payable	\$ 11,162,812	5,081,337
Accrued liabilities	1,980,689	431,304
Taxes payable	128,807	60,000
Total current liabilities	13,272,308	5,572,641

Long-term debt (note 3)	25,000,000	—
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Minority shareholders' interest in subsidiary:

Advances bearing interest at 6 ³ / ₄ % per annum	—	10,730,138
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Equity	31,592,238	9,310,060
	31,592,238	20,040,198

Shareholders' equity:

Capital stock (note 5)	65,282,034	22,935,950
Retained earnings (note 6)	3,634,148	2,239,792
Capital surplus arising on consolidation	1,990,527	5,402,463
	70,906,709	30,578,205

Commitments and contingent liabilities (note 7)	\$140,771,255	56,191,044
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The accompanying notes are an integral part of the above consolidated balance sheet and should be read in conjunction therewith.

Approved on behalf of the Board:

DONALD GORDON, Director.

M. F. NICHOLSON, Director.

British Newfoundland Corporation Limited and Subsidiary Companies

Consolidated Statement of Earnings and Retained Earnings for the Year Ended December 31, 1968

	<u>1968</u>	<u>1967</u>
Sales of concentrates (note 8)	\$ 5,385,078	4,200,516
Revenue from management services:		
Affiliated company	277,213	241,974
Other	—	1,932
Rental of rights and facilities from affiliated company	662,000	641,000
	<u>6,324,291</u>	<u>5,085,422</u>
 Operating and administrative expenses	 2,601,411	 2,509,847
Bank interest	—	22,294
Newfoundland rental	63,796	48,398
Depreciation and amortization	2,666,388	2,451,977
Operating profit for the year	992,696	52,906
 Income from investments	 128,447	 24,650
Dividends from affiliated company	400,000	350,000
Interest on advances capitalized by subsidiary company	—	23,011
	<u>1,521,143</u>	<u>450,567</u>
Current income taxes (note 9)	—	1,251
Net earnings for the year	1,521,143	449,316
Amount attributable to the minority shareholders	126,787	113,738
Net earnings for the year attributable to the shareholders of the company	1,394,356	335,578
Retained earnings at beginning of year	2,239,792	1,904,214
Retained earnings at end of year	<u>\$ 3,634,148</u>	<u>2,239,792</u>

The accompanying notes are an integral part of the above consolidated statement of earnings and retained earnings and should be read in conjunction therewith.

British Newfoundland Corporation Limited and Subsidiary Companies

Consolidated Statement of Source and Application of Funds for the Year Ended December 31, 1968

	1968	1967
Source of funds:		
From current operations:		
Net earnings	\$ 1,521,143	449,316
Depreciation and amortization	2,666,388	2,451,977
Other non-cash items	173	—
	4,187,704	2,901,293
Issues of capital stock	42,346,084	—
Disposal of part interest in Churchill Falls (Labrador) Corporation Limited	—	4,564,665
Minority shareholders of Churchill Falls (Labrador) Corporation Limited:		
Issues of capital stock	30,824,965	3,054,057
Advances	—	10,730,138
Long-term debt	25,000,000	—
Special refundable tax, net	4,126	(27,191)
	102,362,879	21,222,962
Application of funds:		
Land, buildings and equipment, net	209,315	98,670
Churchill Falls power project	73,174,033	24,747,580
Exploration expenditures	758,426	696,096
Expenditures on mineral and water power rights and concessions, net	—	36
Organization and financing expenses	1,422,992	—
Conversion of advances by minority shareholders of Churchill Falls (Labrador) Corporation Limited into shares of that company	10,730,138	—
Purchase of shares of Churchill Falls (Labrador) Corporation Limited from a minority shareholder	12,081,510	—
	98,376,414	25,542,382
Increase (decrease) in working capital	\$ 3,986,465	(4,319,420)

The accompanying notes are an integral part of the above consolidated statement of source and application of funds and should be read in conjunction therewith.

British Newfoundland Corporation Limited and Subsidiary Companies

Notes to the Consolidated Financial Statements as at December 31, 1968

(1) Principles of Consolidation:

- (i) The consolidated financial statements of British Newfoundland Corporation Limited ("Brinco") include the accounts of British Newfoundland Exploration Limited ("Brinex") and its subsidiary company and Churchill Falls (Labrador) Corporation Limited ("Churchill Falls") on the basis of the proportion of total shares held as at December 31, 1968. The comparative figures for 1967 have been adjusted to the same basis.
- (ii) Churchill Falls holds voting control of Twin Falls Power Corporation Limited ("Twin Falls"), through its ownership of all the Class A shares which carry four votes per share but these shares represent only one-third of the shareholders' interest in Twin Falls and therefore its assets and liabilities have not been included in the consolidated financial statements.

Churchill Falls' share of the net earnings of Twin Falls for 1968 amounted to \$439,030 of which \$400,000 has been included in earnings as dividends.

Churchill Falls' share of the retained earnings of Twin Falls at December 31, 1968 was \$247,671 which is not reflected in the accounts.

(2) Power Contract:

Quebec Hydro-Electric Commission ("Hydro-Quebec") and Churchill Falls have agreed upon the terms of a power contract ("Power Contract") which Hydro-Quebec have been authorized to execute by an Order-in-Council of the Quebec Government dated July 10, 1968. The Power Contract provides for the purchase of substantially all the power from the Churchill Falls power project ("Project") for an initial period of approximately forty years and will be renewed for a further period of twenty-five years. It is expected that the Power Contract will be executed concurrently with the consummation of the debt financing arrangements described below.

(3) Long-Term Debt of Churchill Falls:

The current status of the planned debt financing for the Project is set out below.

(i) First Mortgage Bonds

Commitments, subject to completion of final documentation satisfactory to prospective purchasers and to the execution of the Power Contract, have been received for the purchase of First Mortgage Bonds as follows:

Series A due December 15, 2007, bearing interest at the rate of $7\frac{3}{4}\%$ per annum, payable in U.S. dollars in an aggregate principal amount of \$500,000,000 U.S. to be sold at 100% of their principal amount.

Series B due December 15, 2007, bearing interest at the rate of $7\frac{7}{8}\%$ per annum, payable in Canadian dollars in an aggregate principal amount of \$50,000,000 Canadian to be sold at 98.50% of their principal amount.

The aforesaid First Mortgage Bonds will be entitled to the benefit of sinking funds sufficient to retire them fully by maturity.

(ii) General Mortgage Bonds

By Deed of Trust and Mortgage dated September 1, 1968, General Mortgage Bonds of Churchill Falls bearing interest at the rate of $7\frac{1}{2}\%$ per annum, maturing on a date three years after the latest maturity of any of the First Mortgage Bonds, have been authorized in a principal amount of \$100,000,000. The Bonds are being sold in units of \$1,000 principal amount of Bonds and 10 Common Shares and the entire issue has been placed at a price of \$1,000 per unit. The units sold and to be sold are as follows:

	General Mortgage Bonds	Common Shares
December, 1968	\$ 25,000,000	250,000 shares
January, 1969	10,000,000	100,000 shares
February, 1969	10,000,000	100,000 shares
March, 1969	10,000,000	100,000 shares
April, 1969	15,000,000	150,000 shares
May, 1969	15,000,000	150,000 shares
June, 1969	15,000,000	150,000 shares
	<u>\$100,000,000</u>	<u>1,000,000 shares</u>

The General Mortgage Bonds are entitled to the benefit of a sinking fund, commencing after completion of the Project, amounting to 2% of the balance outstanding at the commencement of each year, payable in semi-annual instalments. Upon issuance of the aforesaid First Mortgage Bonds the General Mortgage Bonds will become subordinate thereto.

(iii) Bank Loans

Churchill Falls has been advised by letter dated December 16, 1968 that a consortium of Canadian banks is prepared to execute an agreement which will provide for a credit not exceeding \$150,000,000 at any one time outstanding, subject to the execution of the Power Contract, to the execution of the First Mortgage Trust Deed and to the execution of agreements for the purchase of at least \$518,000,000 of First Mortgage Bonds. The proposed agreement will be subject to certain other conditions and no amounts may be drawn down thereunder prior to January 1, 1972.

(4) Capital Expenditures:

Cost and accumulated depreciation and amortization:

	Cost	Depreciation and Amortization	Net
Churchill Falls Power Project:			
Property and plant	\$113,799,329	4,287,338	109,511,991
Financing expenses	1,605,783	—	1,605,783
	<u>115,405,112</u>	<u>4,287,338</u>	<u>111,117,774</u>
Land, buildings and equipment	4,654,742	2,123,080	2,531,662
Preproduction expenditures	2,950,565	1,638,058	1,312,507
Exploration expenditures	6,609,583	1,509,403	5,100,180
Expenditures on mineral, timber and water power rights and concessions	536,546	98,563	437,983

(5) Capital Stock:

- (i) During the year the share capital of Brinco was increased to 25,000,000 shares by the authorization of an additional 5,000,012 Common Shares, and 10,586,521 Common Shares were issued for a cash consideration of \$42,346,084. Common Shares without nominal or par value authorized and issued as at December 31, 1968, were:

	<u>Shares</u>	<u>Amount</u>
Authorized	25,000,000	
Issued and fully paid	22,705,152	\$65,282,034

- (ii) During the year options were granted to employees on 225,000 Common Shares (128,500 to certain directors or officers of Brinco) at \$4.73 per share exercisable for a period of five years from October 10, 1968. The foregoing options were outstanding at December 31, 1968. An option granted to a director and officer in prior years on 5,000 Common Shares at \$4.00 per share exercisable until August 24, 1970 was outstanding at December 31, 1968.

(6) Dividend Restrictions:

The covenants of the debt instruments of Churchill Falls prohibit the payment of cash dividends by Churchill Falls prior to completion of the Project and place restrictions on the payment of cash dividends thereafter.

(7) Commitments and Contingent Liabilities:

- (i) At December 31, 1968 Churchill Falls had entered into contracts related to the Project involving expenditures after that date estimated at \$170,000,000.
- (ii) In 1953 the Government of Newfoundland and Brinco entered into an agreement ("Principal Agreement") whereby Brinco was granted options on extensive natural resource concessions within the Province of Newfoundland.

Under the terms of the Principal Agreement, as amended, Brinco is obligated to pay to the Government of Newfoundland an annual rental equal to 8 % of the consolidated net profits before income taxes (as defined) of Brinco and its subsidiaries excluding Churchill Falls, resulting from the operation of the concessions and rights granted by the Principal Agreement.

Under the terms of Churchill Falls (Labrador) Corporation Limited (Lease) Act, 1961 and amendments thereto Churchill Falls has entered into a 99-year lease covering the water power potential of the Upper Churchill Watershed and Churchill Falls is required to pay an annual rental of 8 % of its consolidated net profits before income taxes (as defined) and an annual royalty of 50 cents per horsepower year generated (as defined).

- (iii) The liabilities of the companies under their pension plans for past services are being paid by annual instalments over 22 years. The payments for past service in 1968 were \$6,300. The total unfunded liability for past service is \$92,200.

(8) Sales of Copper Concentrate:

Copper concentrates delivered during the year for which final settlement had not been received at December 31, 1968 have been taken into sales on an estimated basis with copper valued at 40¢ per pound less the costs of smelting, refining and freight.

(9) Income Taxes:

No provision has been made for income taxes because none of the companies has taxable income in the year.

(10) Directors' Remuneration:

Remuneration paid to Directors of Brinco in 1968 by Brinco and its subsidiaries amounted to \$83,433.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of British Newfoundland Corporation Limited and subsidiary companies as at December 31, 1968 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, these consolidated financial statements are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company and subsidiary companies at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants.

Montreal, Quebec
April 11, 1969

British Newfoundland Exploration Limited and Subsidiary Company

Consolidated Balance Sheet as at December 31, 1968

Assets	1968	1967
Current assets:		
Cash and short-term deposits	\$ 2,370,714	653,130
Accounts receivable (including \$118,401 from affiliates)	1,035,373	492,491
Supplies and prepaid expenses	411,412	384,978
Total current assets	3,817,499	1,530,599
Special refundable tax	109,857	117,203
Land, buildings and equipment, at cost		
less accumulated depreciation (note 2)	2,515,987	3,050,720
Preproduction expenditures less amounts written off (note 2)	1,312,507	1,856,908
Exploration expenditures less amounts written off (note 2)	5,100,280	4,849,975
	8,928,774	9,757,603
Organization expenses	2,892	2,892
	<u>\$12,859,022</u>	<u>11,408,297</u>
Liabilities		
Current liabilities:		
Accounts payable (including \$8,805 to affiliates)	\$ 297,124	280,636
Accrued liabilities	56,252	54,609
Taxes payable	128,807	60,000
Total current liabilities	482,183	395,245
Advances from British Newfoundland Corporation Limited	9,160,374	9,160,374
Shareholders' equity:		
Capital stock:		
Authorized — 50,000 shares without nominal or par value		
Issued — 5,000 shares fully paid	5,000	5,000
Retained earnings	3,211,465	1,847,678
	3,216,465	1,852,678
	<u>\$12,859,022</u>	<u>11,408,297</u>

The accompanying notes are an integral part of the above consolidated balance sheet and should be read in conjunction therewith.

Approved on behalf of the Board:

M. F. NICHOLSON, Director.

C. T. MANNING, Director.

British Newfoundland Exploration Limited and Subsidiary Company

Consolidated Statement of Earnings and Retained Earnings for the Year Ended December 31, 1968

	1968	1967
Sales of Copper Concentrate:		
Excess of settlements over estimated value for prior year's deliveries	\$ 700,066	315,398
Current year's deliveries:		
Actual settlements received	1,394,306	1,384,713
Estimated value of unsettled copper (note 5)	3,259,346	2,454,146
Other sales	31,360	46,259
	<u>5,385,078</u>	<u>4,200,516</u>
Operating and administrative expense	2,202,378	2,407,578
Depreciation and amounts written off	1,797,100	1,639,803
Mining tax	113,100	40,000
	<u>4,112,578</u>	<u>4,087,381</u>
Operating profit	1,272,500	113,135
Income from investments	91,287	1,488
Net earnings for the year	<u>1,363,787</u>	<u>114,623</u>
Retained earnings at beginning of year	1,847,678	1,733,055
Retained earnings at end of year	<u>\$ 3,211,465</u>	<u>1,847,678</u>

The accompanying notes are an integral part of the above consolidated statement of earnings and retained earnings and should be read in conjunction therewith.

Consolidated Statement of Source and Application of Funds for the Year Ended December 31, 1968

	1968	1967
Source of funds:		
From current operations:		
Net earnings	\$ 1,363,787	114,623
Depreciation and amounts written off	1,797,100	1,639,803
	<u>3,160,887</u>	<u>1,754,426</u>
Special refundable tax — net	7,346	(29,314)
	<u>3,168,233</u>	<u>1,725,112</u>
Application of funds:		
Land, buildings and equipment — net	209,845	101,723
Exploration expenditures	758,426	696,096
	<u>968,271</u>	<u>797,819</u>
Increase in working capital	<u>\$ 2,199,962</u>	<u>927,293</u>

The accompanying notes are an integral part of the above consolidated statement of source and application of funds and should be read in conjunction therewith.

British Newfoundland Exploration Limited and Subsidiary Company

Notes to the Consolidated Financial Statements as at December 31, 1968

(1) Principles of Consolidation:

The consolidated financial statements of British Newfoundland Exploration Limited ("Brinex"), include the assets and liabilities of Little Deer Corporation Limited ("Little Deer"), a wholly owned subsidiary. Little Deer has no earnings to date.

(2) Cost and Accumulated Depreciation and Amortization:

	<u>Cost</u>	<u>Depreciation and Amortization</u>	<u>Net</u>
Land, buildings and equipment	\$ 4,572,092	2,056,105	2,515,987
Preproduction expenditures	2,950,565	1,638,058	1,312,507
Exploration expenditures	6,609,683	1,509,403	5,100,280

(3) Income Taxes:

No provision for income taxes has been made because the mining operations of Brinex were exempt from tax as a new mine until August 31, 1968, and prior years' preproduction and exploration expenditures exceed taxable income subsequent to that date.

(4) Pension Liability:

The company's liability under its pension plan for past services is being paid by annual instalments over 22 years. The payment for past service in 1968 was \$2,200. The total unfunded liability for past service is \$32,300.

(5) Sales of Copper Concentrate:

Copper concentrates delivered during the year for which final settlement had not been received at December 31, 1968 have been taken into sales on an estimated basis with copper valued at 40¢ per pound less the costs of smelting, refining and freight.

(6) Directors' Remuneration:

Remuneration paid to Directors in 1968 amounted to \$31,700.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of British Newfoundland Exploration Limited and subsidiary company as of December 31, 1968 and the consolidated statements of earnings and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiary company at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants.

Montreal, Quebec
April 11, 1969

Report of the Directors to Shareholders

(Continued from page 6)

Mining and Exploration

Financial Results

The mining and exploration side of your Company's business is conducted by its wholly-owned subsidiary, British Newfoundland Exploration Limited (Brinex). The 1968 financial results of this company show a substantial improvement over those of the previous year. This was largely due to higher copper production at the Whales Back mine, partly resulting from improved mine waste dilution experience, and partly from an increase in concentrator capacity, due to the installation of another grinding unit in April. Net earnings

Gull Island, located at a narrowing of the Churchill River, 160 miles downstream from Churchill Falls, has a 2,000,000 horsepower potential. Detailed studies regarding its development will be conducted in 1969.

for the year were \$1,363,787 (1967: \$114,623) and working capital was increased by \$2,199,962 after meeting exploration and sundry capital expenditures during the year of \$968,271. The average price realized for copper settlements during the year was 50.256 cents (Canadian funds) per pound, which reflected the continuation of a period of generally high market prices for copper metal in 1968.

Despite the low grade of ore treated at Whales Back, the combination of high copper prices and excellent over-all plant efficiencies has, since the inception of the mine in 1965, resulted in a reasonably profitable operation. The cash flow developed from the operation is being reinvested in the exploration for and development of minerals in Newfoundland and Labrador.

Exploration and Development

Work was started during the year to prepare the Little Deer property

for mining. The copper ore zone on this property is connected underground with the Whales Back mine by a 3,000-foot long drive. Diamond drilling has indicated sufficient copper ore to warrant mining and treatment, using the haulage and milling facilities at Whales Back. A secondary exit and airway to surface is being installed and mining will be started as soon as possible.

Within the Halls Bay Concession Area in which the Whales Back mine is situated, diamond drilling of a number of copper prospects was maintained and during the year 12,000 feet of exploration drilling was carried out. Results justify that continuing efforts be concentrated in this area to extend base metal mining operations in this district.

In Labrador, exploration in the area under joint venture with

(Continued on page 17)





Aerial reconnaissance is carried out by helicopter and fixed-wing aircraft over the Makkovik area of Labrador.

Supplies brought in by air at Kitts Pond, Labrador, for winter drilling program are loaded on motorized sleds.

Gasoline-powered rock drill is used for trenching near the Kitts uranium deposit.



Report of the Directors to Shareholders

(Continued from page 15)

West German interests, near Makkovik, was actively pursued. During the year 20,000 feet of diamond drilling was carried out and a drilling program utilizing three drills on two uranium discoveries is being continued throughout the 1968-1969 winter months. Both these prospects are marked by radiometric anomalies 1,500 feet long. Drilling at shallow depth on one of them has indicated a uranium deposit of ore grade over a strike length of 700 feet. Drilling is in the early stages on the other, where ore grade material has been intersected over mineable widths.

In the general area, results of the airborne gamma-ray and magnetometer surveys conducted in 1967 indicated 350 radiometric anomalies, of which 220 were investigated on the ground in 1968. It is evident from the information now available that the uranium possibilities in this district warrant serious consideration.

Exploration work in general over the mineral concession areas is being increased in scope and it is intended to complete the basic surveys over all the mineral concession areas within the next five years. A total of 9,600 square miles of mineral rights in Newfoundland and Labrador held under the Principal Agreement with the Newfoundland Government were surrendered to the Government at the end of the year, in accordance with the periodic five-year surrender requirements of this Agreement. Current mineral concession holdings, including areas obtained subsequent to and separately from those under the Principal Agreement, now constitute 5,375 square miles on the Island of Newfoundland and 36,450 square miles in Labrador. The Petroleum and Natural Gas Concession Area of approximately 7,000 square

miles on the west coast of Newfoundland is in addition to the above-mentioned mineral areas.

Exploration expenditures during the year, including partners' expenditure, amounted in total to \$1,146,455.

Mining

At the Whales Back mine 725,867 tons of ore grading 0.98 per cent copper were mined and milled and produced 24,700 dry tons of concentrate containing 13,290,000 pounds of copper. Mine and mill operating costs averaged \$2.83 per ton of ore.

Development of additional ore reserves below the deepest production level at 800-foot elevation was commenced towards the end of the year. Probable ore reserves, at this time, including the deeper ore being developed, amount to 2,500,000 tons grading 1.14 per cent copper after provision of 20 per cent dilution allowance. A further 560,000 tons grading 1.25 per cent copper are contained in support pillars and are classed as possibly recoverable. Further underground development must be done before estimates are made of ore reserves on the Little Deer property.

Legal, Financial and General

During the year the Government of Newfoundland executed an agreement with the Company amending the Company's principal concession. As a consequence of this amendment, the term of the mineral concession, to which an additional 12,720-square-mile mineral area was added, has been extended to expire in 1985; the option to develop the unalienated water powers in Labrador has been extended to expire in 1983, and as part of this over-all arrangement the Company's timber option was surrendered. This agreement was

authorized by legislation adopted by the Newfoundland House of Assembly in 1967 and 1968. In addition, Brinex mineral rights to the Shapio Lake area in Labrador and to the Pilley's Island area on the Island of Newfoundland were extended for additional four-year periods to expire in 1972 and 1973 respectively.

A Consolidated Balance Sheet, Statement of Earnings and Retained Earnings and Statement of Source and Application of Funds for the year ended December 31, 1968, are included with this Report. Consolidated Net Earnings of the Company of \$1,394,356 (1967: \$335,578) reflect the earnings of Brinex referred to earlier. Financial expenses of \$1,422,992 incurred on capital account during the year included expenses in connection with the Company's rights offering to shareholders and bank interest expense. For the additional information of shareholders, financial statements of Brinex are also included while the Annual Report of Churchill Falls (Labrador) Corporation Limited contains financial statements of CFLCo and of Twin Falls.

The directors wish to record their appreciation of the enthusiasm and hard work of staff at all levels in the Brinco group of companies. They would also like to pay tribute to the work and support of the financial and legal advisors, who have been engaged in the heavy financing program referred to in this report.

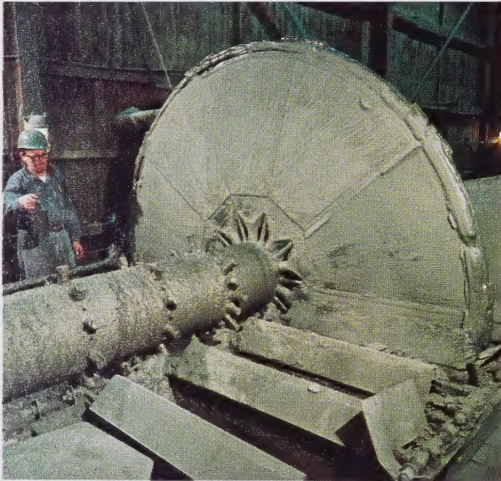
Chairman 

President 

Montreal, April 11, 1969



Whales Back mill and surface plant.



Filtering copper concentrate.



Drilling to break ore.

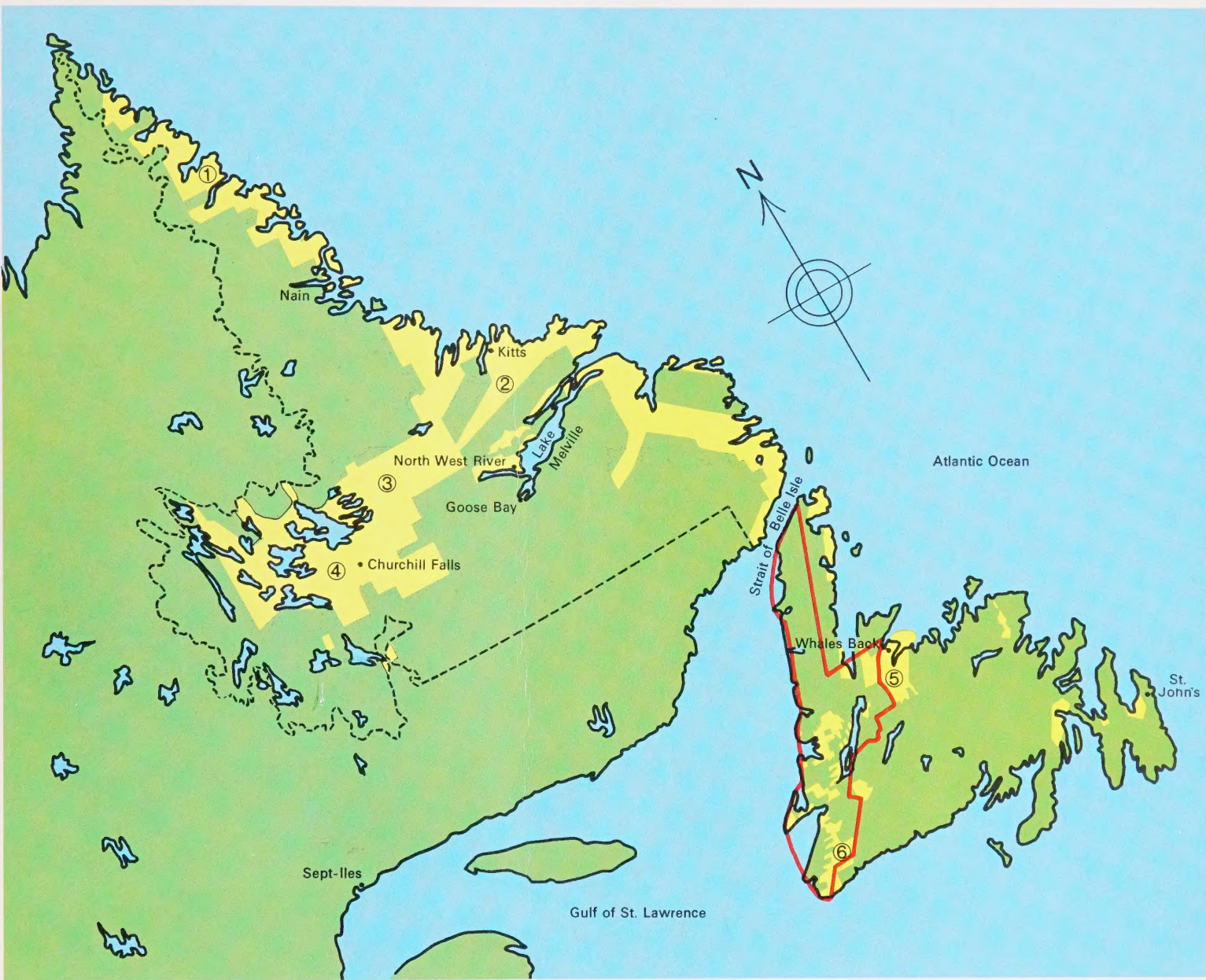


Surface diamond drilling.



Logging core, Halls Bay area.

Geochemical analysis, Springdale.



Mineral concession areas

Oil & gas concession

- 1 Northern Labrador
- 2 Makkovik area
- 3 Seal Lake area
- 4 Churchill Falls area
- 5 Halls Bay area
- 6 South West Newfoundland

